

State of Montana
Office of the Legislative Auditor

REPORT TO THE LEGISLATURE
JUDICIAL BRANCH

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1988

This report contains four recommendations for improving compliance and management controls. These recommendations include:

- ▶ Recording revenue and expenditures associated with Judges' Retirement System.
- ▶ Compliance with state accounting policy governing expenditure accruals.

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Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1987 has been issued. Copies of the Single Audit Report can be obtained by contacting:

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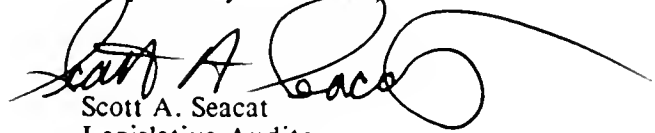
May 1989

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch for the two fiscal years ending June 30, 1988. Included in this report are recommendations concerning the Montana Judges' Retirement System and expenditure accruals. The branch's written response to audit recommendations is included in the audit report.

We thank the Chief Justice, the Court Administrator, the Clerk of the Supreme Court, and Judicial Branch personnel for their cooperation and assistance throughout the audit.

Respectfully submitted,


Scott A. Seacat
Legislative Auditor

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Office of the Legislative Auditor

JUDICIAL BRANCH

Financial-Compliance Audit for the
Two Fiscal Years Ended June 30, 1988

Audit staff involved in the Judicial Branch audit include: Joan Anderson, Julie Barr, Mark Barry, MaryRose Beasley, and Victoria Palmer.

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ELECTIVE AND ADMINISTRATIVE OFFICIALS

Supreme Court

Jean A. Turnage	Chief Justice
L.C. Gulbrandson	Associate Justice
John C. Sheehy	Associate Justice
William E. Hunt, Sr.	Associate Justice
John C. Harrison	Associate Justice
Russell C. McDonough	Associate Justice
Fred J. Weber	Associate Justice

Clerk of Supreme Court

Ed Smith	Clerk of the Supreme Court
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Administrative Officials

Jim Oppedahl	Court Administrator
Judith Meadows	State Law Librarian

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

Recommendation #1

The Judicial Branch:

- A. Record revenue and the costs associated with the Montana Judges' Retirement System in its accounting records. 4

Agency Response: Concur. See page 19.

- B. Remit fees collected for funding the Montana Judges' Retirement System to the Public Employees' Retirement Division in a timely manner. 4

Agency Response: Concur. See page 19.

Recommendation #2

The Judicial Branch accrue expenditures only for valid obligations as required by state accounting policy. 5

Agency Response: Do not concur. See page 19.

Recommendation #3

The Judicial Branch:

- A. Implement procedures to ensure all financial activity recorded on SBAS is in accordance with state law. 6

Agency Response: Concur. See page 20.

- B. Provide SBAS training to and adequately segregate duties of law library personnel; or 6

Agency Response: Concur. See page 20.

- C. Combine the law library accounting function under the Court Administrator's Office. 6

Agency Response: Do not concur. See page 20.

Recommendation #4

The Judicial Branch review contingent revolving fund usage and reduce the balance to a level sufficient to cover, but not significantly exceed, demonstrated usage. 7

Agency Response: Concur. See page 21.

INTRODUCTION

We performed a financial-compliance audit of the Judicial Branch for fiscal years 1986-87 and 1987-88. The objectives of the audit were to:

- 1) Determine compliance with applicable laws and regulations.
- 2) Make recommendations for improvements in the management and internal control of the Judicial Branch.
- 3) Determine the implementation status of prior audit recommendations.
- 4) Determine if the financial schedules present fairly the results of operations for the two fiscal years ending June 30, 1988.

This report contains four recommendations to the Judicial Branch. These recommendations address areas where management and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the Judicial Branch programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed and disclosed, if significant, the costs of implementing the recommendations made in this report.

BACKGROUND

The Constitution of the State of Montana vests the judicial power of the state in a Supreme Court, district courts, justice courts, and such other courts as may be provided by law. The Supreme Court, consisting of a chief justice and six associate justices, has appellate jurisdiction, and may issue, hear, and determine appropriate writs. The Chief Justice is the head of the Supreme Court. The Court Administrator, appointed by the Supreme Court, serves as its administrative officer. The Supreme Court also has general supervisory control over all other courts and may make rules governing appellate practice and procedure for all other courts, admission to the bar, and conduct of its members. The rules of procedure are subject to approval by the Legislature in either of the two sessions following promulgation.

Supreme Court justices and district court judges are elected to office on a non-partisan ballot. Their terms of office and the procedure for filling vacancies on the court are established in the Constitution and by statute. The Legislature determines salaries for the justices and district court judges.

The Clerk of the Supreme Court is elected to office on a partisan ballot for a term of six years. His duties are specified by law and include maintaining records and files for the Supreme Court and collecting various court fees. The Law Librarian

is appointed by the Supreme Court to develop and maintain the law library collection and library services.

The Judicial Branch is divided into five programs for fiscal management with a total authorized full-time staffing level (FTE) of 91.50 for fiscal year 1987-88. A brief description of each program follows:

1. The judiciary program consists of the costs of operation of the Supreme Court and the Clerk of the Supreme Court.
2. The boards and commissions program accounts for expenditures for the boards and commissions established either by statute or the Supreme Court to perform various services required to support the judiciary within the state of Montana.
3. The law library program accounts for the operation of the State Law Library. The library is maintained for use by members of the Supreme Court, Legislature, state officials, and state employees. The library is also available to members of the bar and the general public.
4. The district court program accounts for the payment of salaries and travel expenses for district court judges.
5. The water courts supervision program accounts for the expenditures of the water courts.

PRIOR AUDIT RECOMMENDATIONS

The previous audit report contained six recommendations still applicable to the Judicial Branch. The Judicial Branch has implemented one of these recommendations, partially implemented two, and has not implemented three.

The recommendations for which the Judicial Branch has not taken adequate corrective action concern the Judges' Retirement System revenue and expenditures (page 2), adequate segregation of functions (page 6), and recording the law library book collection on the state's accounting records (page 5).

MONTANA JUDGES' RETIREMENT SYSTEM

The Judicial Branch receives money from certain district court fees and Supreme Court fees as defined by state law. Part of the money received is used to fund the Montana Judges' Retirement System (MJRS). Section 19-5-404, MCA, requires the Judicial Branch to contribute fees collected under section 25-1-201, MCA, in an amount equal to 31 percent of salaries paid to district judges and Supreme Court justices and one-fourth of the fees collected under section 3-2-403, MCA, to the MJRS and deposit the balance in the general fund. The Judicial Branch

deposits these moneys directly in the MJRS fund at the Public Employees' Retirement Division (PERD), Department of Administration. It does not record revenue for receipt of the fees nor expenditure for the corresponding disbursement to PERD to fund the retirement plan. The Montana Judges' Retirement System was established for district court judges and Supreme Court justices. Because both judges and justices are employees of the Judicial Branch, the Judicial Branch is the logical agency to account for the fee revenue and reflect the costs associated with the MJRS.

The Judicial Branch's procedures resulted in an understatement of revenues and pension expenditures of approximately \$510,525 in fiscal year 1986-87 and \$487,322 in fiscal year 1987-88. This also results in an adverse opinion on the Judicial Branch's financial schedules shown on pages 10 through 17. To properly record the transactions, the Judicial Branch would require appropriation authority, but no additional money. The appropriation authority could be provided through a statutory appropriation. This concern was noted in our three previous audit reports. The Judicial Branch concurred with the recommendation but has not taken corrective action.

In addition, we noted the Judicial Branch does not remit the required district court fees to PERD in a timely manner. Judicial Branch records show it retained an average of \$64,500 each month which it could have sent to PERD to fund the retirement system. The Judicial Branch retains collections and remits them to PERD when collections equal 31 percent of each month's district court judges' and Supreme Court justices' salaries. Amounts currently collected each month from district court fees are not sufficient to provide the required percentage of salaries. Judicial Branch personnel believe the law specifically requires an amount equal to 31 percent of each month's salary be remitted to PERD. However, the law does not require the Judicial Branch to send more than funding sources supply. To maximize interest income and more promptly fund the MJRS, the Judicial Branch should remit all collections to PERD in a timely manner. Since judges' and justices' salaries are defined by law, the Judicial Branch could calculate the maximum amount due yearly to PERD. Personnel should remit all fees collected to PERD immediately upon receipt up to the maximum liability for that year. Collections in excess of funding requirements should be deposited in the General Fund as required by law.

RECOMMENDATION #1

We recommend the Judicial Branch:

- A. Record revenue and the costs associated with the Montana Judges' Retirement System in its accounting records; and**
- B. Remit fees collected for funding the Montana Judges' Retirement System to the Public Employees' Retirement Division in a timely manner.**

EXPENDITURE ACCRUALS

State law and state accounting policy require agencies to accrue expenditures at fiscal year-end only for valid obligations. An agency has a valid obligation when it has requested goods or services through a valid purchase order or has received those goods or services but has not yet paid for them.

During our audit, we found the Judicial Branch improperly accrued General Fund expenditures of \$26,500 in fiscal year 1986-87 and \$1,200 in fiscal year 1987-88 for which no valid obligation existed. The improper accruals include:

- \$10,000 for anticipated costs of an investigation scheduled for but not contracted for until the next fiscal year.
- \$2,400 for printing costs accrued in fiscal year 1986-87 for which the purchase order was not issued until fiscal year 1988-89.
- \$2,300 for equipment for which the purchase order was approved in the next fiscal year.
- \$8,800 for a conference held in the next fiscal year.
- \$1,200 for a committee meeting never held but which was expected to occur in the next fiscal year.

Judicial Branch personnel indicated they were aware of state policy regarding valid obligations but accrued the items because they considered the obligations valid. Although the expenditures were reasonable and amounts accrued by the Judicial Branch were based on reasonable cost estimates, the accruals did not meet the valid obligation criteria under state policy. It is contrary to state accounting policy and appropriation laws for the Judicial Branch to accrue expenditures when no valid obligation exists. The Judicial Branch should only accrue expenditures for those items for which it has a valid purchase order or if it has received the goods or services but has not yet paid for them.

RECOMMENDATION #2

We recommend the Judicial Branch accrue expenditures only for valid obligations as required by state accounting policy.

ACCOUNTING RECORDS

Financial information of the Judicial Branch is used by court administrative officials, legislators, and others to manage and establish funding levels for the Judicial Branch. The Judicial Branch uses the Statewide Budgeting and Accounting System (SBAS) to record its financial activity. Section 17-1-102(4), MCA, indicates "all state agencies . . . shall input all necessary transactions to the accounting system . . . in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles . . ."

We noted the following instances where amounts recorded on SBAS did not comply with this law:

1. In fiscal year 1987-88, the Judicial Branch improperly charged a portion of federal subgrant expenditures from the Criminal Justice Block Grant (CFDA #16.573) to the General Fund instead of the Special Revenue Fund. As a result, the Boards and Commissions program expenditures in the General Fund are overstated and the Judiciary program expenditures in the Special Revenue Fund are understated by \$4,799 in fiscal year 1987-88.
2. In fiscal year 1987-88, law library personnel made errors in recording accounts receivable and revenue relating to billings sent to users for legal research. As a result, Special Revenue Fund revenue is overstated by an estimated \$7,962.
3. At fiscal year-end 1987-88, the Judicial Branch adjusted its records incorrectly for the estimated amount of the Judicial Branch's liability to employees for accumulated vacation and sick leave. As a result, the liability shown on the state's accounting records was understated by \$11,158 at June 30, 1988.
4. As noted in the previous audit, the Judicial Branch does not record the law library book collection as a fixed asset on the state's accounting records as required by state accounting policy. The library collection represents a material and valuable unrecorded asset. Law library personnel recorded a portion of recent library purchases on the state's accounting records during fiscal year 1988-89. Personnel stated they intend to hire consultants at a cost of approximately \$2,000 to estimate the value of the remaining collection when funds become available.

Most of the issues discussed above resulted from human error, improper segregation of duties, or a lack of funding. The Judicial Branch could avoid errors such as those involving federal expenditures and compensated absences by implementing more thorough review procedures to ensure all adjustments to SBAS are made correctly by fiscal year-end. The Judicial Branch could improve accounting control over law library transactions by providing additional accounting and SBAS training to library personnel preparing accounting documents and implementing procedures to provide experienced supervisory review and authorization of transactions. Management should also require that the person approving accounting documents not be the preparer of the documents. As an alternative, the Judicial Branch could consider combining the law library accounting functions under the Court Administrator's Office. Personnel indicated no additional personnel or funding would be necessary to provide the accounting services.

RECOMMENDATION #3

We recommend the Judicial Branch:

- A. Implement procedures to ensure all financial activity recorded on SBAS is in accordance with state law; and**
- B. Provide SBAS training to and adequately segregate duties of law library personnel; or**
- C. Combine the law library accounting function under the Court Administrator's Office.**

CONTINGENT REVOLVING FUND

Section 17-2-201, MCA, allows the Department of Administration to authorize the establishment and maintenance of a contingent revolving fund (CRF) for specific purposes. State policy indicates a revolving cash account is used to make disbursements where timing needs cannot be met by the state warrant system. State policy requires "the maximum amount of a . . . revolving cash account . . . shall be that which is sufficient to satisfy demonstrated needs." The Judicial Branch established a \$2,500 CRF in fiscal year 1987-88. According to Judicial Branch records, it disbursed between \$50 and \$900 per month from the account in that fiscal year.

State policy regarding CRFs attempts to minimize cash in nontreasury accounts while providing a system to enable agencies to pay for items on an emergency or immediate needs basis. By limiting the cash held in nontreasury

accounts, the state can maximize investment earnings on moneys retained in treasury accounts. Since the present balance of \$2,500 significantly exceeds demonstrated and anticipated future needs, the Judicial Branch should review contingent revolving fund usage and reduce the balance to a level sufficient to cover, but not significantly exceed, demonstrated usage.

RECOMMENDATION #4

We recommend the Judicial Branch review contingent revolving fund usage and reduce the balance to a level sufficient to cover, but not significantly exceed, demonstrated usage.

INDEPENDENT AUDITOR'S REPORT
AND AGENCY FINANCIAL SCHEDULES

SUMMARY OF INDEPENDENT AUDITOR'S REPORT

The auditor's opinion issued in this report is intended to convey to the reader of the financial schedules the degree of reliance that can be placed on the amounts presented. The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments.

We issued an adverse opinion on the Schedule of Changes in Fund Balance, the Schedules of Budgeted Revenue - Estimated and Actual, and the Schedules of Budgeted Program Expenditures By Object and Fund presented because revenues and expenditures related to the Judges' Retirement System are not recorded. The schedules are not fairly stated and the user of this SBAS information cannot rely on the information presented.



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Operations and EDP Audit

JAMES GILLETT
Financial-Compliance Audit

JIM PELLEGRINI
Performance Audit

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial schedules of the Judicial Branch for each of the two fiscal years ended June 30, 1987 and 1988 as shown on pages 10 through 17. The information contained in these schedules is the responsibility of the Judicial Branch's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial schedules, the Judicial Branch's financial schedules are prepared in accordance with state accounting policy and are not intended to be a presentation in conformity with generally accepted accounting principles.

The Judicial Branch does not record all activity associated with the Montana Judges' Retirement System. As a result, General Fund revenues and expenditures for fiscal years 1986-87 and 1987-88 are understated by approximately \$510,525 and \$487,322, respectively.

In our opinion, because of the effect of the matter discussed in paragraph four, the financial schedules referred to above do not present fairly, in all material respects, the results of operation of the Judicial Branch for each of the two fiscal years ending June 30, 1987 and 1988, in conformity with the basis of accounting described in Note 1.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "James Gillett".

James Gillett, CPA
Deputy Legislative Auditor

March 20, 1989

JUDICIAL BRANCH
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1988

	<u>General Fund</u>	<u>Special Revenue Funds</u>
FUND BALANCE: July 1, 1986	\$ <u>-0-</u>	\$ <u>41,202</u>
ADDITIONS:		
<u>Fiscal Year 1986-87</u>		
Budgeted Revenue	127,972	52,514
Support From State Of Montana	3,990,538	
Cash Transfers In		434,340(a)
<u>Fiscal Year 1987-88</u>		
Budgeted Revenue	125,144	149,264
Prior Year Expenditure Adjustments	8,731	
Support From State Of Montana	4,083,325	
Cash Transfers In		<u>392,804(a)</u>
Total Additions	<u>8,335,710</u>	<u>1,028,922</u>
REDUCTIONS:		
<u>Fiscal Year 1986-87</u>		
Budgeted Expenditures	4,108,823	516,395
Prior Year Expenditure Adjustments	9,687	208
<u>Fiscal Year 1987-88</u>		
Budgeted Expenditures	4,217,088	534,766
Prior Year Revenue Adjustments	112	
Prior Year Expenditure Adjustments		<u>7,214</u>
Total Reductions	<u>8,335,710</u>	<u>1,058,583</u>
FUND BALANCE: June 30, 1988	\$ <u>-0-</u>	\$ <u>11,541</u>

(a) See footnote 5.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 15 through 17.

JUDICIAL BRANCH
SCHEDULE OF BUDGETED REVENUE - ESTIMATED AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	<u>Licenses and Permits</u>	<u>Charges For Services</u>	<u>Grants, Contracts, Donations</u>	<u>Federal</u>	<u>Total</u>
GENERAL FUND					
Estimated Revenue	\$ 80,000	\$54,653			\$134,653
Actual Revenue	<u>67,711</u>	<u>57,433</u>			<u>125,144</u>
Collections Over (Under) Estimate	\$ <u>(12,289)</u>	\$ <u>2,780</u>			\$ <u>(9,509)</u>
SPECIAL REVENUE FUND					
Estimated Revenue		\$70,025	\$108,300	\$10,000	\$188,325
Actual Revenue		<u>77,826</u>	<u>61,100</u>	<u>10,338</u>	<u>149,264</u>
Collections Over (Under) Estimate		\$ <u>7,801</u>	\$ <u>(47,200)</u>	\$ <u>338</u>	\$ <u>(39,061)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 15 through 17.

JUDICIAL BRANCH
SCHEDULE OF BUDGETED REVENUE - ESTIMATED AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	<u>Licenses and Permits</u>	<u>Charges For Services</u>	<u>Grants, Contracts, Donations</u>	<u>Total</u>
GENERAL FUND				
Estimated Revenue	\$80,000	\$45,150		\$125,150
Actual Revenue	<u>70,125</u>	<u>57,847</u>		<u>127,972</u>
Collections Over (Under) Estimate	<u>\$(9,875)</u>	<u>\$12,697</u>		<u>\$ 2,822</u>
SPECIAL REVENUE FUND				
Estimated Revenue		\$20,000	\$ 95,600	\$115,600
Actual Revenue		<u>16,514</u>	<u>36,000</u>	<u>52,514</u>
Collections Over (Under) Estimate		<u>\$(3,486)</u>	<u>\$(59,600)</u>	<u>\$(63,086)</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 15 through 17.

JUDICIAL BRANCH
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1988

	<u>Judiciary</u>	<u>Boards and Commissions</u>	<u>Law Library</u>	<u>District Court Operations</u>	<u>Water Courts Supervision</u>	<u>Total</u>
PERSONAL SERVICES						
Salaries	\$ 880,180	\$ 60,939	\$166,513	\$1,771,143	\$258,717	\$3,137,492
Other Compensation		171		22,519		22,690
Employee Benefits	<u>153,429</u>	<u>12,645</u>	<u>36,339</u>	<u>286,339</u>	<u>52,525</u>	<u>541,277</u>
Total	<u>1,033,609</u>	<u>73,755</u>	<u>202,852</u>	<u>2,080,001</u>	<u>311,242</u>	<u>3,701,459</u>
OPERATING EXPENSES						
Contracted Services	31,626	51,498	82,384	7,942	1,038	174,488
Supplies & Materials	40,541	10,779	18,610	5,888	12,629	88,447
Communications	34,323	6,417	17,943	1,442	24,760	84,885
Travel	19,284	29,123	7,545	87,690	1,997	145,639
Rent	83,615	905	66,086		33,483	184,089
Repair & Maintenance	10,541	114	8,819	2,585	12,868	34,927
Other Expenses	<u>45,017</u>	<u>2,723</u>	<u>9,537</u>	<u>7,472</u>	<u>1,558</u>	<u>66,307</u>
Total	<u>264,947</u>	<u>101,559</u>	<u>210,924</u>	<u>113,019</u>	<u>88,333</u>	<u>778,782</u>
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment	19,559	2,462	219,966	21,641	753	264,381
Intangible Assets	<u>4,365</u>			<u>2,867</u>		<u>7,232</u>
Total	<u>23,924</u>	<u>2,462</u>	<u>219,966</u>	<u>24,508</u>	<u>753</u>	<u>271,613</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,322,480</u>	<u>\$177,776</u>	<u>\$633,742</u>	<u>\$2,217,528</u>	<u>\$400,328</u>	<u>\$4,751,854</u>
GENERAL FUND						
Budgeted	\$1,330,278	\$182,919	\$511,307	\$2,239,909		\$4,264,413
Actual	<u>1,315,323</u>	<u>177,776</u>	<u>506,461</u>	<u>2,217,528</u>		<u>4,217,088</u>
Unspent Budget Authority	<u>\$ 14,955</u>	<u>\$ 5,143</u>	<u>\$ 4,846</u>	<u>\$ 22,381</u>		<u>\$ 47,325</u>
SPECIAL REVENUE FUND						
Budgeted	\$ 14,002		\$157,694		\$469,581	\$ 641,277
Actual	<u>7,157</u>		<u>127,281</u>		<u>400,328</u>	<u>534,766</u>
Unspent Budget Authority	<u>\$ 6,845</u>		<u>\$ 30,413</u>		<u>\$ 69,253</u>	<u>\$ 106,511</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 15 through 17.

JUDICIAL BRANCH
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES BY OBJECT AND FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 1987

	Judiciary	Boards and Commissions	Law Library	District Court Operations	Water Courts Supervision	Total
PERSONAL SERVICES						
Salaries	\$ 856,360	\$ 41,073	\$154,078	\$1,754,713	\$240,504	\$3,046,728
Hourly Wages			32			32
Other Compensation				21,428	357	21,785
Employee Benefits	144,792	9,113	32,571	272,656	49,777	508,909
Total	<u>1,001,152</u>	<u>50,186</u>	<u>186,681</u>	<u>2,048,797</u>	<u>290,638</u>	<u>3,577,454</u>
OPERATING EXPENSES						
Contracted Services	31,893	74,428	26,235	15,360	4,352	152,268
Supplies & Materials	26,026	10,390	17,097	4,535	11,764	69,812
Communications	32,574	6,096	15,123	884	32,668	87,345
Travel	16,438	27,644	4,504	96,129	4,013	148,728
Rent	86,998	808	64,860		37,290	189,956
Repair & Maintenance	12,994	230	5,394	13,914	7,440	39,972
Other Expenses	12,464	287	7,743	7,338	1,163	28,995
Total	<u>219,387</u>	<u>119,883</u>	<u>140,956</u>	<u>138,160</u>	<u>98,690</u>	<u>717,076</u>
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment	28,188	1,272	261,482	6,914	31,328	329,184
Intangible Assets	993			511		1,504
Total	<u>29,181</u>	<u>1,272</u>	<u>261,482</u>	<u>7,425</u>	<u>31,328</u>	<u>330,688</u>
TOTAL PROGRAM EXPENDITURES	<u>\$1,249,720</u>	<u>\$171,341</u>	<u>\$589,119</u>	<u>\$2,194,382</u>	<u>\$420,656</u>	<u>\$4,625,218</u>
GENERAL FUND						
Budgeted	\$1,287,193	\$179,173	\$504,826	\$2,228,261		\$4,199,453
Actual	<u>1,249,720</u>	<u>171,341</u>	<u>493,380</u>	<u>2,194,382</u>		<u>4,108,823</u>
Unspent Budget Authority	<u>\$ 37,473</u>	<u>\$ 7,832</u>	<u>\$ 11,446</u>	<u>\$ 33,879</u>		<u>\$ 90,630</u>
SPECIAL REVENUE FUND						
Budgeted			\$122,009		\$550,526	\$ 672,535
Actual			<u>95,739</u>		<u>420,656</u>	<u>516,395</u>
Unspent Budget Authority			<u>\$ 26,270</u>		<u>\$129,870</u>	<u>\$ 156,140</u>

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 15 through 17.

JUDICIAL BRANCH
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1988

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Judicial Branch uses the modified accrual basis of accounting which is described in the Montana Operations Manual.

Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy:

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

Revenues under the modified accrual basis of accounting are recognized when measurable and available. "Available" means the revenue will be received soon enough to pay the liabilities of the current period.

Basis of Presentation

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the Judicial Branch:

General - accounts for all financial resources except those required to be accounted for in another fund.

Special Revenue - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund. The Judicial Branch accounts for the law library, water courts, and federal grants in special revenue funds.

2. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS) or the Montana Judge's Retirement System (MJRS). The Judicial Branch's contributions to these plans are shown below:

	<u>Fiscal Year</u> <u>1986-87</u>	<u>Fiscal Year</u> <u>1987-88</u>
PERS	\$ 41,675	\$ 44,085
MJRS	<u>126,390</u>	<u>127,920</u>
Total	<u>\$168,065</u>	<u>\$172,005</u>

Revenues and expenditures related to the Montana Judges' Retirement System (MJRS) are not recorded in the accounting records of the Judicial Branch. Costs of approximately \$510,525 for fiscal year 1986-87 and \$487,322 for fiscal year 1987-88 for providing funding of the MJRS are not reflected in the amounts above as a result of current accounting procedures. The contribution source for these moneys is district and Supreme Court fees.

3. GENERAL FUND BALANCE

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund as long as they stay within their appropriation limits. Thus, on an agency schedule the General Fund beginning and ending fund balance will always be zero.

4. VACATION AND SICK LEAVE

Employees of the Judicial Branch accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules presented. Expenditures for termination pay are currently absorbed in the annual operational costs of the Judicial Branch. At June 30, 1988, the Judicial Branch has a predicted liability of \$47,402 for vacation leave and \$19,475 for sick leave.

5. CASH TRANSFERS

Cash transfers of \$434,340 and \$392,804 in fiscal years 1986-87 and 1987-88, respectively, occurred in the Water Development Special Revenue Fund. The Judicial Branch shares the fund with the Department of Natural Resources and Conservation. Because of combined use of the fund, cash transfers are necessary to return the cash balance to zero at year-end.

AGENCY RESPONSE

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MAY 11 1989

Montana Legislative Auditor

The Supreme Court of Montana
Office of the Court Administrator



JIM OPPEDAHN
Court Administrator

JUSTICE BUILDING - ROOM 315
215 NORTH SANDERS
HELENA, MONTANA 59620-3001
TELEPHONE (406) 444-2621

May 2, 1989

RECEIVED

MAY 02 1989

Montana Legislative Auditor

Mr. Scott Seacat
Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

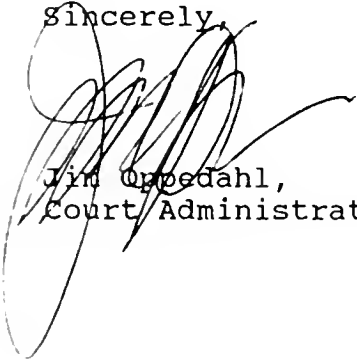
Dear Mr. Seacat:

As requested by your April 24, 1989 letter, attached is our response to the report on the audit of the Judicial Branch.

We are ready to meet with the Audit Committee at their convenience in order to provide any other information that may be desired.

If anything further is needed, please feel free to contact me.

Sincerely,


Jim Oppedahl,
Court Administrator

SUPREME COURT REPLY
TO AUDIT REPORT OF JUNE 30, 1988

Recommendation #1

The Judicial Branch:

- A. Record revenue and the costs associated with the Montana Judges' Retirement System in its accounting records.
- B. Remit fees collected for funding the Montana Judges' Retirement System to the Public Employees' Retirement Division in a timely manner.

Judicial Branch Response:

- A. We concur, however, previous audit recommendations have included the stipulation that legislative action on section 19-5-404, MCA, was necessary to implement this recommendation. Legislative action is also necessary to establish statutory appropriation authority under Title 17.
- B. . We concur and will do so.

Recommendation #2

The Judicial Branch accrue expenditures only for valid obligations as required by state accounting policy.

Judicial Branch Response:

We do not concur. The Judiciary accruals were for valid obligations for the year in which they were accrued.

- \$10,000 was accrued for an investigation that had started in May but was continued to September by a valid court continuance. It was the determination of the approving authority that a valid obligation existed and that appropriated funds needed to be committed for this purpose.

- \$2,400 was accrued for printing the revised Rules of Criminal Procedures. The Committee that had worked on the rules started their work in fiscal 87, the purchase order could not be issued until the final draft report was completed. The printing needed to be contracted based on the number of pages so prior issuance of a purchase order was not possible.

- \$2,300 for equipment that the purchase order was issued in the next fiscal year. The order was placed via state term contract with the vendor in June of the accrued fiscal year

but the vendor could not give the amount until the factory detailed all the cost of the order to the vendor. Purchase order was then issued for the exact amount of the order which was less than the accrued amount.

- \$8,800 was accrued for the Montana Judges Conference. The accrual was necessary to avoid having two meetings of the Judges Conference in the same year. The Judges Conference is held each year in June at the same time as the Annual Convention of the State Bar of Montana. 1987 was an exception in which the Annual Convention was delayed until July. This created a potential for having two Montana Judges Conferences in the same year -- July 1987 and June 1988.

- \$1,200 was accrued for nomination of a new Water Adjudication Judge. This money was appropriated to the Supreme Court by HB 754 and states that "the money is to be used for expenses of the Judicial Nominations Commission in performing functions relating to water court appointments." The Judiciary, at the end of fiscal 88, requested that this appropriation be made a continuing appropriation by the budget office. This request was made because the Water Judge's term would not expire until June 30, 1989, and the Nominations Commission would not meet until May of fiscal 1989. The Budget Office did not make the appropriation continuing so the Judiciary accrued the money to insure the intent of HB 754 to provide the Judiciary with funds for expenses related to Water Court nominations.

Recommendation #3

The Judicial Branch:

- A. Implement procedures to ensure all financial activity recorded on SBAS is in accordance with state law.
- B. Provide SBAS training to and adequately segregate duties of law library personnel.
- C. Combine the law library accounting function under the Court Administrator's Office.

Judicial Branch Response:

- A. We concur. The Judiciary experienced staff turn over in fiscal 86, due to this turn over and the reassignment of duties and the hiring of new staff the accounting errors that the auditors found did occur. The Judiciary has since corrected procedures and established duties and procedures to insure that all SBAS activities are recorded in accordance with properly outlined methods.
- B. We concur and have implemented recommendations.

C. This option is addressed under the concurrence within option (b) above.

Recommendation #4

The Judicial Branch review contingent revolving fund usage and reduce the balance to a level sufficient to cover, but not significantly exceed, demonstrated usage.

Judicial Branch Response:

We concur. The contingent revolving fund was established by the Judiciary to allow for paying items on an emergency or immediate needs basis. It has always been the intent of the Judiciary to review the funds use and adjust the balance based on usage.

C:\NANCYJ\AUDITREP

